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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
A HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY OF THE
COMPANY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN.

DOCKET NO. E-01345A-16-0036

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF FUEL AND PURCHASED
POWER PROCUREMENT AUDITS FOR
ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO. E-01345A-16-0123

**NOTICE OF FILING OF REPLY
TESTIMONY OF PAUL WALKER
ON BEHALF OF
CONSERVAMERICA**

REP America d/b/a/ ConservAmerica ("ConservAmerica") submits the Reply Testimony
of Paul Walker in support of the Settlement Agreement in this docket.

RESPECTFULLY SUBMITTED this 17th day of April, 2017.

Snell & Wilmer, L.L.P.

By

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2 filed this 17th day of April 2017, with:

3 Docket Control

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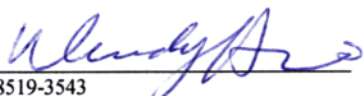
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ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO. E-01345A-16-0123

Reply Testimony of Paul Walker

on Behalf of

ConservAmerica

April 17, 2017

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1 **I. Introduction.**

2 **Q Are you the same Paul Walker who submitted testified earlier in this proceeding?**

3 A. Yes.

4
5 **Q. What is the purpose of your testimony?**

6 A. I respond to the testimony in opposition to the Settlement Agreement filed by AARP
7 witness John B. Coffman and SWEEP witness Jeff Schlegel. In particular, I will rebut
8 their criticisms of the Settlement Agreement rate design, and I will explain why the
9 Settlement Agreement rate design is customer-friendly, conservation-friendly, and
10 reasonable.

11
12 **II. General Response to Both Witnesses.**

13 **Q. After reading and considering the testimony in opposition to the Settlement filed by**
14 **Mr. Coffman and Mr. Schlegel, what is your general response?**

15 A. I think what we need is some perspective. Neither witness so much as mentions the most
16 important issue for all customers, i.e., how much are rates going up? That's in the
17 Settlement too – and it's very good news for customers.

- 18 • “When new rates become effective, customers will have on average a 3.28% bill
19 impact.”¹
20 • “Residential customers will have on average a 4.54% bill impact.”²

21
22 So, that's the first thing we need to keep in mind. The Settlement proposes very modest
23 changes to bills.

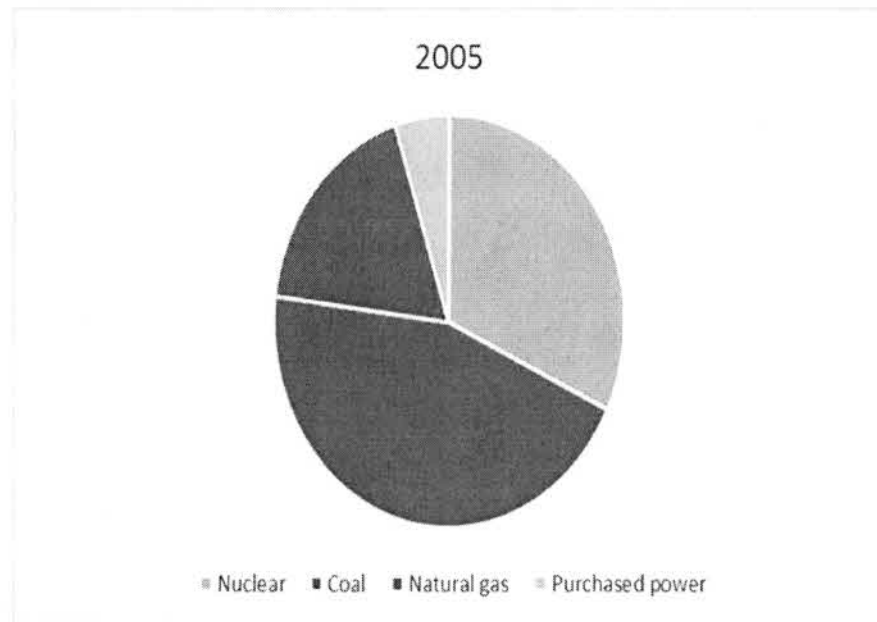
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¹ Settlement, Section IV, Bill Impact, Paragraph 4.1.

27 ² Ibid, Paragraph 4.1.a

1 Second point, neither witness seems to be thinking about the systemic changes in the
2 electric industry in the past decade, nor about what direction the Commission can take the
3 industry in the next decade. APS' own resource mix has shifted dramatically in the past
4 decade, and with the pace of technological development and change in the management
5 of electric power at both the residential and commercial class level it's going to keep
6 changing in the next decade.

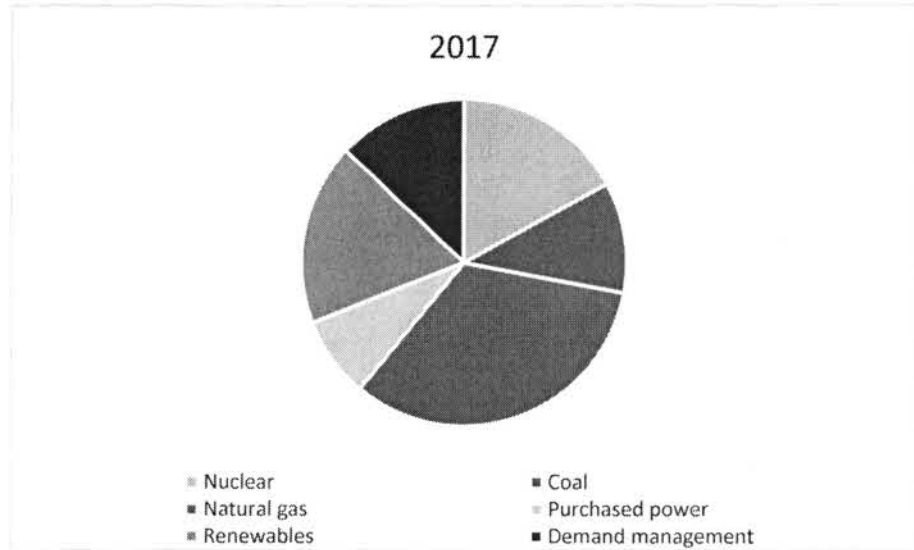
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8 Here are APS' generation mix data from 2005³, and 2017⁴:



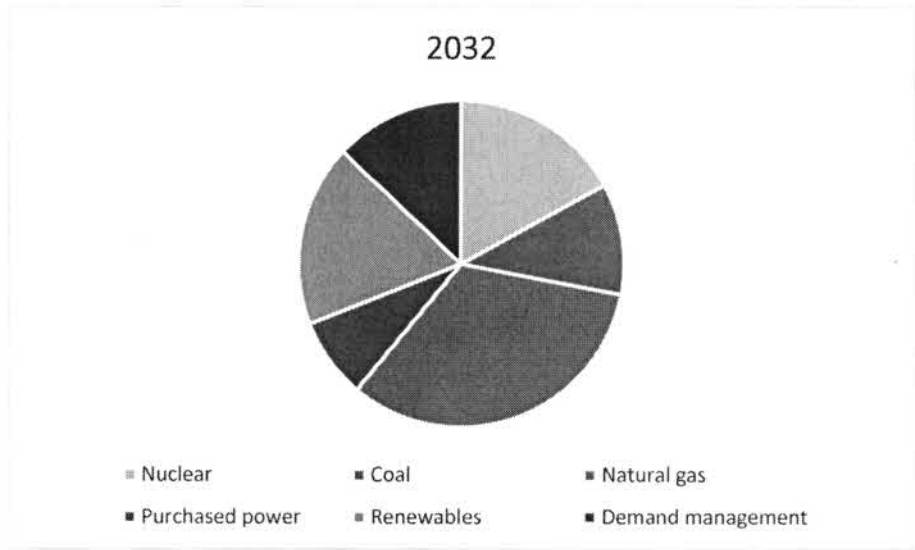
26 ³ Decision No 67744, Footnote 15 at Page 16, Lines 25-26.5.

27 ⁴ Arizona Public Service Integrated Resource Plan 2017, Page 12,
<https://www.aps.com/library/resource%20alt/2017IntegratedResourcePlan.pdf>.

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And this is what it could look like in 2032:



1 Mr. Coffman and Mr. Schlegel are taking an extremely narrow view of the Settlement –
2 ignoring the most important issue to customers (what’s the bill impact?) and ignoring the
3 most important issue to regulators (how does the Settlement shape the future?)
4

5 The reality of the situation is that both those questions have positive answers in the
6 Settlement.
7

8 **III. Response to AARP witness Coffman.**

9 **Q. Did Mr. Coffman have any comments on the settlement process?**

10 A. Yes. Mr. Coffman states that the “settlement process allowed for a thorough and
11 comprehensive discussion of all major issues” and that AARP is “extremely pleased
12 about many aspects of the Settlement Agreement.”⁵
13

14 **Q. Do you have any concerns about Mr. Coffman’s qualifications?**

15 A. Yes. His testimony touts his experience as a regulatory lawyer, but he does not disclose
16 any technical qualifications, such as degrees in management, accounting, finance, or
17 economics. Nor does he state that he has ever offered expert testimony in any state. In
18 addition, his apparent LinkedIn account discloses an undergraduate degree in “Political
19 Science/Philosophy”⁶ but no technical qualifications. Mr. Coffman’s testimony reflects
20 this background—it contains much argument, but no actual evidence or data.
21

22 **Q. Can you provide an example?**

23 A. Yes. Mr. Coffman testifies that “AARP believes that many would prefer a traditional
24 basic flat rate plan”, but he does not provide any evidence to support this claim.⁷ In
25

26 ⁵ Coffman Settlement Testimony at 3:3-5.

27 ⁶ <https://www.linkedin.com/in/john-b-coffman-7218a85/>.

⁷ Coffman Settlement Testimony at 5:24-27.

1 addition, Mr. Coffman appears to confuse the outdated (i.e. “traditional”) volumetric rate
2 plan with a flat rate plan—these are completely different rate designs.

3
4 **Q. What objections does Mr. Coffman raise to the Settlement Agreement?**

5 A. He objects to the \$15 basic service charge for the R-Basic rate plan, and to the 90 day
6 waiting period for selecting R-Basic that would begin on May 1, 2018 under Section 19.1
7 of the Settlement Agreement.

8
9 **Q. Why is the proposed \$15 basic service charge for the R-Basic rate appropriate?**

10 A. The \$15 basic service charge is reasonable. My February 3, 2017 Rate Design Direct
11 Testimony explains at length why a traditional two part volumetric rate is broken,
12 outdated and unfair.

13
14 In particular, this rate design recovers most of the fixed costs of the grid through
15 volumetric charges. This creates a cost shift as rooftop solar and other technologies
16 allow customers to reduce their billed kWh. This shifts the fixed costs of the grid to
17 “regular” non-solar customers. And because it is the richer customers who can afford
18 rooftop solar and other technologies, the traditional rate design results in poorer
19 Arizonans subsidizing richer Arizonans. Please see my Rate Design Direct Testimony at
20 pages 4-8 for further information.

21
22 Further, as the Commission has observed, the “short-coming” of the traditional rate
23 design is that “if customers use fewer kWhs, for whatever reason, including energy
24 efficiency products, a desire to protect the environment, or to save money, these rates do
25 not recover all of the costs of service.”⁸ The Commission therefore concluded that “we
26 believe the time is ripe for a more modern rate design. Before turning to mandatory

27

⁸ Decision No. 75697 (August 18, 2016) at 64:9-11.

1 three-part rates, however, we find that the better, more tempered path to modernity is to
2 move more customers to TOU rates or three-part rates. Appropriately designed TOU
3 rates or three-part rates should allow better recovery of costs, and send the correct signals
4 about the cost of service and encourage customers to shift their loads to off-peak times.”⁹
5 The Settlement Agreement, by promoting TOU and demand rate options, complies with
6 this direction from the Commission.

7
8 In short, if a traditional volumetric rate design is retained, a higher basic service charge is
9 appropriate.

10
11 Further, a lower basic service charge would, of course, result in a higher volumetric
12 charge, a fact that Mr. Coffman does not acknowledge. AARP has not issued a press
13 release that “AARP argues for higher kWh rates” (and I can only imagine the response
14 from its members if it did), but higher kWh rates are exactly the result of a lower basic
15 service charge.

16
17 And it matters a great deal whether kWh rates are higher or lower—both Mr. Coffman
18 and Mr. Schlegel argue that a higher basic service charge “reduces the incentive” for
19 energy efficiency¹⁰—but they don’t complete the circle. They never explain what the
20 “incentive” is that fuels this energy efficiency desire. That’s because the “incentive” is
21 high and volatile electric bills.

22
23
24
25
26 ⁹ Decision No. 75697 (August 18, 2016) at 65:22-27.

27 ¹⁰ See, e.g., Mr. Coffman’s Settlement Testimony at page 4, line 7.5; and Mr. Schlegel’s
Settlement Testimony at page 5, line 16.

1 I have seen this attitude in every rate case I have ever been involved with since 2001.
2 And it's always being made by people in professional jobs that don't work directly with
3 low-income people.
4

5 I have been poor in America. And through my work with Pocket Teller and working with
6 the Arizona Community Action Alliance, I continue to try helping people who are poor in
7 America. This is what kills you when you're poor in America: Volatile bills.
8

9 It's not that \$10 more a month here, and \$10 there doesn't add up—it does... But what
10 you can't handle when you're broke is the bill you did not expect or that you did not
11 expect to be so high.
12

13 When ratemaking increases the basic service charge it reduces the amount of revenue that
14 needs to be collected in volumetric rates.
15

16 So the volumetric rates can be lower.
17

18 Then, when one uses more power (or water in those cases) than she expected she would,
19 the bill impact is not as great because the higher usage doesn't get exacerbated by a
20 higher volumetric charge.
21

22 That's how you get rates like the Settlement has—yes, basic service charges go up a high
23 percentage—but that provides the revenue to keep volumetric rates lower—and you get a
24 4.54% bill impact. And more importantly, you reduce the volatility in the bills for
25 everyone, but that mainly saves poor people and those on fixed incomes from nightmares.
26
27

1 I am not disputing the economic impact of volatility in bills—Mr. Coffman and Mr.
2 Schlegel are right, giving people nightmares incents them to make changes. But at what
3 cost? And are we really going to keep expecting poor people and seniors to cut back more
4 and more and more so that expert witnesses can keep cashing checks by arguing that
5 Commissioners should “incent” energy conservation by making bills more volatile?
6

7 I urge the Commission to listen to the parties that actually do work with low-income
8 people when considering the impact of rate design: Arizona Community Action Alliance
9 and the Residential Utility Consumers Office both support the Settlement Agreement.
10

11 Finally, if a customer wants a lower basic service charge, the Settlement Agreement
12 provides an abundance of alternative rate designs with lower basic service charges,
13 including Rate Schedules R-2, R-3, TOU-E and R-XS.¹¹
14

15 **Q. Mr. Coffman also argues that the \$15 charge is out-of-line compared to other**
16 **utilities. [Coffman at 4:1-6]. How do you respond?**

17 **A.** Here again, Mr. Coffman does not provide data to support this claim. The only other
18 basic service charges Mr. Coffman points to are for UNS Electric and TEP, at \$13. The
19 Settlement proposal of \$15 is not a significant departure from the \$13.
20

21 Moreover, Mr. Coffman misstates the basic service charge for UNS Electric. For UNS
22 Electric’s “tradition rates” and the post-transition “standard non-TOU two part rate”, the
23 basic service charge is \$15.¹² Further, the other major utility in the Phoenix metro area,
24 SRP, has a \$20 monthly service charge for its traditional volumetric rate plan (Rate E-
25

26 ¹¹ See Settlement Agreement, Sections 17.1, 17.4, 17.5 and 17.6.
27

¹² Decision No. 75967 (August 18, 2016) at 66:10-19.

1 23).¹³ Thus, the Settlement basic service charge for R-Basic is \$5 less than the
2 comparable rate for SRP, is equal to the comparable rate for UNS Electric, and is only \$2
3 more than the comparable rate for TEP. It is thus not out-of-line compared to other
4 Arizona utilities.

5
6 **Q. What about the customer's ability to control their bill?**

7 A. Mr. Coffman argues that "Charging too much in the BSC for residential consumers limits
8 the ability of those customers to control their monthly bills and reduces the incentive for
9 energy efficiency and energy conservation measures."¹⁴ Rate design is a powerful tool to
10 support reductions in emissions (not just carbon, but others as well), and ConservAmerica
11 strongly supports rate designs that incentivize energy efficiency and energy conservation
12 measures. As just one example, ConservAmerica worked with the Commission, the
13 Governor's Office and Arizona Association of Business Officials to launch the nation's
14 most innovative energy efficiency program for financially disadvantaged school districts.

15
16 While ConservAmerica supports conservation focused rate designs, the traditional
17 volumetric rate design is not such a rate design. Customers who are interested in energy
18 efficiency or energy conservation are poorly served by outdated "traditional" rate designs
19 like R-Basic. Demand or TOU rate structures offer greater opportunities for customers to
20 save, while also aligning much better with the utility's cost structure. In other words, the
21 economic incentives in TOU and demand rates are designed to better reflect actual
22 reductions in costs due to specific changes in customer behavior, thus benefiting the
23 specific customer, all other customers, and the utility. In contrast, reduced kWh use
24 under the traditional volumetric rate does nothing to reduce the fixed costs that are the
25 major component of the kWh rate. In short, TOU or demand rates are a far better tool to

26
27 ¹³ <http://www.srpnet.com/prices/pdfx/April2015/E-23.pdf>

¹⁴ Coffman Settlement Testimony at 4:5-8.

1 support energy efficiency, as well as other emissions reduction technologies. Yet, oddly,
2 both witnesses oppose the Settlement provision that would ensure future customers “take
3 a test drive” of those opportunities.
4

5 **Q. What about Mr. Coffman’s other objection, to the limits on the R-Basic plan?**

6 A. Section 19.1 of the Settlement provides that after May 1, 2018, new APS residential
7 customers “may choose TOU-E, R-2, R-3, or if they qualify, R-XS or R-Tech”, and after
8 90 days, they may also opt-out and select R-Basic. Mr. Coffman objects that this
9 “provision would take away customer choice”¹⁵ But under the Settlement, residential
10 customers would have between 3 and 5 choices at the onset, with an additional choice to
11 revert to R-Basic after 90 days.
12

13 Mr. Coffman also argues that “AARP believes strongly that customers—not the utility
14 company—should choose from all available rate plans.”¹⁶ The Settlement Agreement
15 complies with this principle. The Commission—if and when it adopts the Settlement—
16 will determine what rate plans are available, and then the customer will select the plan
17 they prefer. As noted above, residential customers will have multiple choices available to
18 them. Mr. Coffman’s real objection, then, appears to be to any limit on what rate plans
19 are available. But of course, there must be some limit—an infinity of rate plans is neither
20 possible nor desirable. As explained in my Rate Design Direct Testimony, I supported
21 the elimination of the archaic and broken “traditional” volumetric rate design. In the
22 context of settlement, however, ConservAmerica is willing to accept its perpetuation with
23 the limits described in the Settlement Agreement.
24

25 **Q. But why have a 90 day waiting period before a customer can go back to R-Basic?**

26 ¹⁵ Coffman Settlement Testimony at 5:5-9.

27 ¹⁶ Coffman Settlement Testimony at 5:5-9.

1 A. Many customers remain on the traditional rate design through sheer inertia—after all,
2 how often to you think about your rate option? And now, how often do you think the
3 average person leading an already full life, thinks about their utility rate options?
4

5 Other customers have unwarranted fears of new rate designs—often stirred up by
6 advocacy groups like AARP—even if they would benefit from the new choices. The 90
7 day provision is a very modest start to addressing these problems. It will not affect the
8 vast majority of customers, because it applies only to new customers. And for the subset
9 of customers that is covered, the longest they would be “forced” on the traditional,
10 broken rate design is 90 days. If they don’t like the plan they choose, or that plan is not
11 advantageous to them, they can switch to R-Basic in only 90 days.
12

13 Q. **Mr. Coffman argues that it would be “very uncommon that utility customers would**
14 **actually be able to figure out on their own how to “opt-out” of a rate plan in order**
15 **to change to their desired plan after 90 days.”¹⁷ How do you respond?**

16 A. Mr. Coffman presents no data that APS customers (or the subset of APS customers that
17 are AARP members) are unintelligent. APS communicates with customers through
18 multiple channels, such as APS’s website, its mobile phone app¹⁸, Facebook¹⁹, Twitter²⁰,
19 and its customer service line. If a customer is unsure how to switch rate plans, customers
20 could call an APS customer service representative to walk them through switching.
21

22 Q. **What other arguments does Mr. Coffman make against the 90 day period?**
23
24

25 ¹⁷ Coffman Settlement Testimony at 5:17-18-21.

26 ¹⁸ <https://www.aps.com/en/residential/accountservices/Pages/mobile-app.aspx>.

27 ¹⁹ <https://www.facebook.com/apsfyi>.

²⁰ <https://twitter.com/@apsfyi>.

1 A. He argues that it “would create a policy of discriminatory treatment towards new
2 customers.”²¹ I’ll leave it to the lawyers to debate the legality. But new customers are
3 not similarly situated to existing customers. For one thing, they have not already selected
4 a rate plan. Thus, if the traditional volumetric rate is to be offered at all, it is not
5 unreasonable to grandfather existing customers on a similar plan. Indeed, by Mr.
6 Coffman’s argument, it would seem that grandfathering of any type would be
7 impermissible—an argument I’m sure the solar parties would vociferously dispute.

8
9 And if the 90 day period is truly discriminatory—and I don’t think it is—then the remedy
10 should be to not offer this broken and antiquated rate design at all.

11
12 **IV. Response to SWEEP witness Schlegel.**

13 **Q. Did Mr. Schlegel have comments on the settlement process?**

14 A. Yes. He said the settlement process was “open, transparent, and inclusive of all parties
15 who desired to participate.”²²

16
17 **Q. What provisions of the Settlement does Mr. Schlegel object to?**

18 A. He objects to the basic service charge, the 90 day period, and to the treatment of the DSM
19 over-collection.

20
21 **Q. What is your reaction to Mr. Schlegel’s testimony?**

22 A. I’m disappointed in Mr. Schlegel’s testimony. The Settlement Agreement—through its
23 focus on TOU and demand rate options—strongly supports energy efficiency. I’ve
24 already explained how these rate designs benefit energy efficiency.

25
26 _____
27 ²¹ Coffman Settlement Testimony at 6:9-10.

²² Schlegel Settlement Testimony at 2:25-27.

1 **Q. Please respond to Mr. Schlegel's objections to the basic service charge?**

2 A. He argues that the basic service charge should only include the "costs associated with
3 meters, billing, meter reading, and customer service" or what he calls the "Basic Service
4 Method".²³ However, the Commission's recent decisions in the TEP and UNS Electric
5 rate cases were not limited to this method. For example, in the TEP rate order, the
6 Commission noted that the basic service charge it adopted "exceeds the maximum charge
7 calculated by most parties using the Basic Customer Method".²⁴ Thus, the Commission
8 does not require that the basic service charge be determined solely through the Basic
9 Customer Method, as advocated by Mr. Schlegel.

10
11 Mr. Schlegel does not dispute that the \$15 is far less than APS's fixed costs. The
12 decision about which fixed costs to include in the basic service charge is one for the
13 Commission, not Mr. Schlegel, to make. As explained in my response to AARP, the \$15
14 is reasonable and appropriate.

15
16 **Q. What do you think of Mr. Schegel's appeal to the authority of Professor Bonbright's**
17 **"Principles of Public Utility Rates" – a book which you have frequently cited**
18 **yourself?**

19 A. Mr. Schlegel would reduce the title from "Principles of Public Utility Rates" to "Principle
20 of Public Utility Rates". He literally bases his entire argument on one of Professor
21 Bonbright's principles to the exclusion of all others, that of cost causation—but he utterly
22 ignores the Section "Necessary Deviations From A Cost Of Service Standard" in which
23 Professor Bonbright states:

24 "Three factors require deviation from cost of service in rates:

25
26
27 ²³ Schlegel Settlement Testimony at 5:21-23.

²⁴ Decision No. 75975 (Feb. 24, 2017) at 65:7-10.

- 1 1. Excessive complexity of cost relationships (each customer has different
2 uses; different times of use, different distance from central plant, etc.).
- 3 2. Failure of the sum of differential costs to equate with total costs (if every
4 customer's exact costs were calculated, the likelihood that the sum of all
5 those costs would equal total costs is nil).
- 6 3. The 'cost' used to calculate required revenue is not the 'cost' in rate
7 design. Rate base = Fixed costs. Rates = Fixed + Variable Costs."

8 Mr. Shlegel's approach leads him to suggest a basic service charge that only covers a few
9 line items and that, amazingly considers the following line items to be NOT related to
10 customers:

- 11 • Advertising (FERC 913)²⁵
- 12 • Demonstrating and Selling (FERC 912)²⁶
- 13 • Uncollectible Account (FERC 904)²⁷
- 14 • Supervision Costs (unless related to two specific FERC accounts)²⁸
- 15 • Customer Assistance (FERC 908)²⁹
- 16 • Numerous element of distribution plant [the items that actually get the power to
17 the customer], including: poles, towers, and fixtures; overhead conductors and
18 devices; underground conductors and devices; and line transformers – and, I
19 suppose to be intellectually consistent, he rejects all the operating and
20 maintenance expenses on that plant as well.³⁰

21
22
23 ²⁵ Schlegel Settlement Testimony at 6:19-23

24 ²⁶ Schlegel Settlement Testimony at 6:19-23

25 ²⁷ Schlegel Settlement Testimony at 6:19-23

26 ²⁸ Schlegel Settlement Testimony at 6:19-23

27 ²⁹ Schlegel Settlement Testimony at 6:19-23

³⁰ Schlegel Settlement Testimony at 6:28:33

1 **Q. You have been involved with electric utility regulation since 2001, correct? What**
2 **are some of your experiences in the sector?**

3 A. Yes, I started with Commissioner Marc Spitzer in January of 2001; have worked with
4 Arizona Public Service Company, Unisource Energy; and with several private equity
5 funds assessing electric utility issues and cases throughout the U.S.

6
7 **Q. Can you even imagine a world in which distribution plant wouldn't be related to**
8 **customers?**

9 A. Not if it's used and useful.

10
11 **Q. Can you even imagine a world in which customer assistance, advertising and**
12 **uncollectible account expense wouldn't be related to customers?**

13 A. Not if there are actual customers of the utility.

14
15 **Q. What was the basic service charge in the first APS case that you recall?**

16 A. For the E-12 Standard Residential customer, it was \$0.253/day, i.e., \$7.59 a month; and
17 for the Time of Use Residential customer it was \$0.493/day, i.e. \$14.79 a month.³¹ Those
18 were established in 2005.

19
20 **Q. How do those 2005 rates compare to the Settlement today, in 2017?**

21 A. Adjusted for CPI, the Standard Residential Rate would be \$10.42 today;³² and the Time
22 of Use Residential Rate would be \$20.30.³³

23
24 **Q. And, again, what are the Settlement's proposed basic service charges?**

25
26 ³¹ ACC Decision No. 67744, Appendix J to Settlement Agreement

27 ³² <https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=7.59&year1=200104&year2=201701>

³³ <https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=14.79&year1=200104&year2=201701>

1 A. R-Basic would be \$15 a month; and Time of Use would be \$13 a month. So they
2 numbers are nothing near as “shocking” as Messrs. Coffman and Schlegel pretend. And
3 again, by increasing basic service charges a little, we reduce the volumetric rate
4 component and reduce the probability of sending unexpectedly large bills to people.
5

6 **Q. What other principles of Professor Bonbright should the Commission consider?**

7 A. The Commission should consider Bonbright’s Part Three – The Rate Structure; Chapter
8 XVI, Criteria of a Sound Rate Structure; SECTION: “CRITERIA OF A DESIRABLE
9 RATE STRUCTURE”

- 10 1. Simplicity, understandability, public acceptability, and feasibility.
- 11 2. Freedom from controversies as to proper interpretation.
- 12 3. Effectiveness in yielding total revenue requirements.
- 13 4. Revenue stability from year to year
- 14 5. Stability of the rates (minimize unexpected rate changes).
- 15 6. Fair cost allocation among the different consumer classes.
- 16 7. No undue discrimination in rates.
- 17 8. Efficiency in resource consumption choices and usage (optimum use).

18 With the rate design in the Settlement, all of those are achieved.
19

20 **Q. What does Mr. Schlegel propose?**

21 A. As I explained earlier, Mr. Schlegel simply pretends that a lot of things that exist because
22 customers exist aren’t actually customer costs—so we should put them into volumetric
23 rates and send bigger, more shocking bills to people.
24

25 By doing so, he proposes a basic service charge of \$8.05 for all residential rates. If a
26 person lives in a small apartment and qualifies for the XS tariff, she still pays the exact
27

1 same basic service charge as the wealthy man in his 8,000 square foot home with guest
2 house, four HVACs, and a pool. \$8.05 each, per month.

3
4 And to make sure APS earns the revenue required to provide service to all customers, the
5 Commission should just make energy usage (volumetric rates) more inclined so that
6 when the struggling family he posits in his testimony has a month in which they use more
7 electricity than they expected, they not only pay for more kWh, they more for the kWh
8 than they ever expected. And then, his dream, and AARP's supposedly comes true—the
9 poor family, after going thru a crisis because of a large electric bill decides to buy a
10 NEST thermostat, a new HVAC with a higher SEER, re-insulate the home, change out
11 their appliances, etc., etc. One small quibble with their Nirvana though—if people
12 struggle to pay an electric bill, how would they get the money to do all the things SWEEP
13 and AARP really want them to do in order to change the way they live?

14
15 This question, as always, goes unasked and unanswered in that sort of testimony.

16
17 **Q. Please respond to Mr. Schlegel's objections to the TOU rate.**

18 A. Mr. Schlegel touts TOU rates as "a superior rate design for reducing peak demands".³⁴
19 But he objects to the "on peak" periods. Notably, Mr. Schlegel does not argue that the
20 TOU "on peak" periods do not conform to APS's actual system peak period. Instead, Mr.
21 Schlegel argues that a shorter peak period would be "more attractive to customers".³⁵ If a
22 TOU rate is to be effective in reducing system peak, then the TOU "on peak" period
23 should match the actual system peak period.

24
25
26

³⁴ Schlegel Settlement Testimony at 8:26-37.

27 ³⁵ Schlegel Settlement Testimony at 10:2-3.

1 It's a sweetly ironic juxtaposition to his moralizing on the absolute need to ensure that all
2 costs should be based on what customers specifically cause. And it should be rejected.
3 The peak matters—it's where costs arise (see my testimony in support of Settlement);
4 and it's where emissions arise.
5

6 **Q. Does Mr. Schlegel also object to the 90 day "waiting period"?**

7 A. Yes. Mr. Schlegel claims that "To make progress on rate modernization, peak demand
8 objectives, and controlling costs, Arizona should be doing all of this from the perspective
9 of the customer. We should have more customer-friendly TOU rates, combined with clear
10 and effective information, and effective rate options to *encourage* customers to move to
11 TOU - and not mandate the rates upon customers."³⁶ Thus, Mr. Schlegel does not dispute
12 the need for a modernized rate design.
13

14 Ironically, given his emphasis on encouraging customers to switch to TOU, Mr. Schlegel
15 opposes the main mechanism in the Settlement Agreement to encourage customers to a
16 TOU rate, namely the higher basic service charge for the R-Basic rate. As I have
17 explained in response to AARP, the 90 day period is a moderate and reasonable step to
18 increase enrollment in modern rate designs like TOU and demand rate options. These
19 modern rate designs are more compatible with energy efficiency, as well as new
20 technologies like rooftop solar and customer battery storage.

21 All the Settlement does – and believe me, I would like it to have gone farther – is get
22 customers to take a test drive of 21st Century rate design.
23

24 **Q. Does this conclude your testimony?**

25 A. It does.
26

27 ³⁶ 4834-5205-8694
Schlegel Settlement Testimony at 10:24-28.